

Putting people first

An empathetic, rights-based approach to residential water pricing

National Water Reform 2026 inquiry

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Central proposition. Water pricing should begin with people's essential needs, dignity and capacity to act. Utilities must remain fully funded, but their financial stability should be secured through the tariff, regulatory and funding framework - not by making every household pay an unavoidable water supply charge regardless of consumption.

The views expressed in this submission are personal and do not represent those of any employer or organisation.

Executive summary

The pricing question should not begin with: how can a utility make every customer contribute a predictable fixed amount? It should begin with: what tariff best respects people’s need for essential water, their dignity and their capacity to control household costs?

Australia’s prevailing framework commonly uses a two-part tariff: a fixed service availability charge plus a volumetric usage charge. The fixed component is understandable from the provider’s perspective. Water networks have high fixed costs, demand varies and utilities need dependable cash flow. But cost structure does not, by itself, determine who must bear those costs or how they must appear on a bill.

An unavoidable fixed water charge establishes a minimum bill before a household uses a litre. It limits the amount a careful user can save, weakens the connection between conservation and the bill, and embeds the utility’s revenue risk in every household account. Concessions may assist eligible customers, but they treat affordability as an exception after the tariff has been designed rather than as a property of the tariff itself.

This submission proposes a different starting point: a universal, modest essential allowance *R* for residential potable water, no fixed water supply charge, and a progressively rising charge above *R*. Low and moderate users would pay less; high and discretionary users would pay more. The model is intended to recover the same efficient revenue across the customer class. It is revenue-neutral at portfolio level, not bill-neutral for every household.

This is not a proposal to suppress average prices or underfund infrastructure. It is a proposal to separate two decisions that are too often conflated: the efficient revenue a utility is allowed to recover, and the fair way that revenue is collected from users.

Scope. The core tariff proposal applies to residential potable water supply. Wastewater and stormwater have different service and cost drivers and require separate, transparent treatment. Because fixed wastewater charges can dominate a combined bill, reform should also test the affordability and agency effects of the combined water-services bill.

Recommendations

1

Adopt a user-first pricing objective. Add an explicit objective that residential tariff design should protect essential water use, give users meaningful control over their bills and reward restraint, alongside full efficient cost recovery.

2

Test a universal essential water allowance. Develop a nationally consistent design framework for a modest per-person allowance R, with jurisdiction-specific calibration and adjustments for legitimate needs.

Recommendations continued

3

Separate the revenue requirement from tariff incidence. Determine the efficient allowed revenue first, then assess whether it can be recovered through progressive usage charges and transparent public contributions without a fixed residential water charge.

4

Protect utility revenue through regulation. Permit symmetric revenue true-ups, demand-risk reserves, rolling recalibration and explicit community service obligation payments so conservation does not undermine efficient service delivery.

5

Build equity safeguards into the design. Adjust for household size, medical and disability needs, shared meters, leaks, tenancy and climatic conditions; retain targeted hardship support for circumstances a universal allowance cannot address.

6

Model and pilot before wider adoption. Use de-identified customer data to test revenue, distributional, behavioural and administrative effects under normal, drought and demand-reduction scenarios, then publish an independent evaluation.

1. Purpose and central proposition

The Productivity Commission has been asked to consider pricing that supports efficient resource allocation and the long-term financial sustainability of the water services industry, while balancing affordability, resilience, efficient cost recovery and distributional and social policy objectives.[1] The Commission's interim update also defines secure water services as services that are available, physically accessible and affordable, as well as safe and reliable.[2]

The proposal in this submission sits directly at that intersection. Its central proposition is that water pricing should begin from the perspective of users. Every person should have access to sufficient water for essential personal and domestic needs, and households that conserve should have a meaningful opportunity to lower their bills. An unavoidable fixed water charge is in

tension with those principles because it places a price on access, limits the financial benefit of conservation and prioritises provider certainty over user circumstances and agency.

Utility financial viability remains non-negotiable. Safe services, climate resilience, asset renewal and future supply all require adequate funding. But financial viability should be treated as a binding design and regulatory constraint, not as the moral starting point of the tariff. The full efficient revenue requirement can be preserved while its incidence is redesigned.

2. The problem with the prevailing framework

2.1 A provider-centred default

The National Water Initiative Pricing Principles describe the conventional arrangement clearly. Urban water businesses generally estimate usage revenue and recover the residual revenue requirement through a service availability charge. The principles recommend two-part tariffs unless they are not cost-effective, while permitting more than one usage tier for conservation or equity reasons.[3] In effect, the fixed charge becomes the balancing item that resolves revenue risk.

That arrangement is administratively coherent, but it begins with the industry's problem: revenue certainty. The user receives a bill that may remain substantial even after diligent conservation. The tariff therefore communicates that access to the service is chargeable and that the user has only partial control over the outcome.

2.2 Affordability is added after the tariff

Current policy discussion often presents affordability and financial sustainability as competing ends. The interim update cautions against suppressing average prices and says affordability is generally better addressed through targeted concessions or community service obligations.[2] That is a valid warning: short-term price restraint can defer necessary investment and increase future costs.

But there is a third option between under-recovery and relying only on targeted relief. A tariff can recover the full efficient revenue requirement while embedding a universal essential allowance and reallocating more of the burden to higher use. Targeted concessions would still be required for exceptional hardship and legitimate high needs; they would supplement, rather than define, the system's humanity.

2.3 Cost causation does not dictate tariff incidence

Most water-service costs are fixed or sunk in the short run. That fact supports an adequate allowed revenue requirement; it does not prove that each household must face a fixed charge. Network tariffs already pool costs across locations, generations and customers. Decisions about

depreciation, capital returns, postage-stamp pricing, developer contributions and community service obligations all allocate costs rather than merely discover them.

The relevant question is therefore not whether fixed costs exist. It is whether an unavoidable fixed charge is the best way to recover them after considering human needs, conservation incentives, distributional effects, administrative costs and utility risk. That question should be open to evidence rather than resolved by convention.

3. An empathetic, human-rights-based pricing principle

The United Nations human-rights framework defines the right to water as the right of everyone to sufficient, safe, acceptable, physically accessible and affordable water for personal and domestic uses.[4] The United Nations General Assembly has also recognised safe and clean drinking water and sanitation as a human right essential to life and the enjoyment of human rights.[5] This submission invokes that framework as a policy principle. It does not claim that all water must be free or that the right removes the need to fund infrastructure.

An empathetic tariff is not merely one that sounds compassionate. It has observable design properties:

- it protects a modest quantity required for essential personal and domestic use;
- it gives users a meaningful capacity to lower their bills through restraint;
- it recognises that legitimate needs differ and provides accessible adjustments;
- it embeds support in the ordinary tariff instead of waiting for a household to enter hardship;
- it makes cross-subsidies and public contributions transparent; and
- it does not transfer all demand and conservation risk to households simply because a fixed charge is convenient.

This framing changes the order of reasoning. Essential need and dignity define the protected starting point. Resource stewardship then requires progressively stronger signals as use becomes less essential. Revenue adequacy is solved across the customer base and over time through tariff calibration and regulation.

4. The proposed pricing model

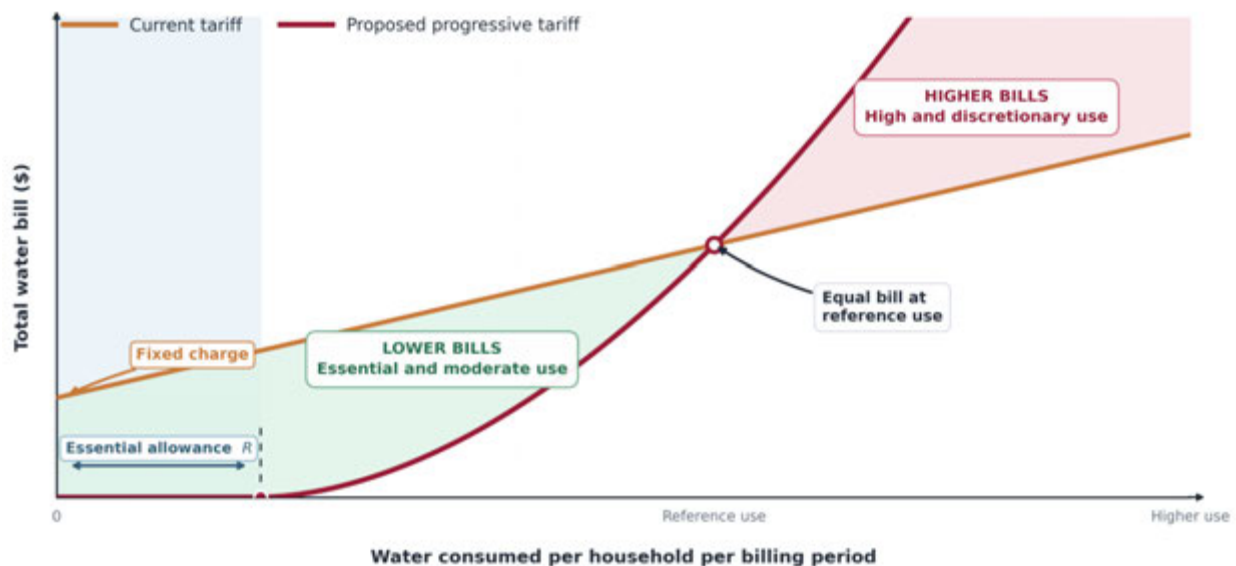
Let V be a household's metered potable water use in a billing period. A stylised current two-part tariff can be written as $B_c(V) = F + pV$, where F is a fixed charge and p is a constant usage price. The proposed tariff removes F and protects an essential allowance R :

$$B_p(V) = 0 \text{ for } V \leq R; \quad B_p(V) = k(V - R)^n \text{ for } V > R, \text{ with } n > 1$$

This equation is illustrative, not a recommended final formula. A regulator could implement the same principle through simple inclining blocks. R , k , the number and width of blocks, and the steepness of progression must be calibrated using actual household data, water scarcity and service costs. The essential allowance should be modest enough to protect health and dignity without licensing waste.

Progressive water pricing

Protect essential use, then increase the price progressively as consumption rises



Conceptual illustration. The proposed curve would be calibrated across all customers to recover the utility's required revenue.

Figure 1. Conceptual comparison of a fixed-plus-usage tariff and the proposed essential allowance with progressive charging. The crossing point is illustrative; revenue neutrality depends on calibration across the full customer distribution.

4.1 What the model is intended to achieve

- No water supply bill for consumption within the defined essential allowance R .
- Lower bills than the prevailing tariff for essential and moderate use.
- A meaningful financial reward for conservation.
- A stronger price signal for high and discretionary consumption.
- The same efficient allowed revenue across the residential customer class, subject to transparent government contributions.

The crossing of the two lines at a reference level of use is useful for communicating who is likely to pay less or more. It does not by itself establish revenue neutrality. That requires modelling the entire distribution of consumption and household characteristics, including behavioural responses to the new prices.

5. Full cost recovery without an unavoidable fixed water charge

5.1 Determine allowed revenue first

The first regulatory step should remain a transparent determination of efficient allowed revenue A, including prudent operating expenditure, asset consumption, an appropriate return on capital, tax equivalents where relevant, and funding for resilience and required service standards. Nothing in this proposal reduces A.

The tariff parameters should then be chosen so that expected revenue from the progressive tariff plus any explicit government contribution G equals A. In simplified form:

$$\Sigma \text{ expected household charges under } B_p + G = A$$

G may be zero if the residential customer class fully funds the allowance through progressive rates. Alternatively, government may choose to fund part of the essential allowance as an explicit community service obligation. The choice should be public: an implicit under-recovery is neither durable nor accountable.

5.2 Manage demand risk rather than hiding it in the fixed charge F

Removing a fixed water charge increases exposure to variations in weather, demand and conservation. It also reduces the provider's financial incentive to maintain sales. The appropriate response is not to deny the risk, but to allocate and manage it deliberately. Practical mechanisms include:

- a revenue cap or equivalent allowed-revenue framework that is independent of throughput;
- a symmetric true-up that returns over-recovery and recovers under-recovery over a later period, with smoothing limits to protect bill stability;
- a regulated revenue-stability reserve for weather and demand variance;
- demand forecasts that explicitly model price elasticity, climate, efficiency and population change;
- scheduled recalibration of R and the progressive rates using updated data; and
- transparent community service obligation payments where government directs that part of the service be funded collectively.

These mechanisms separate revenue adequacy from the volume sold in any one period. They also avoid a perverse outcome in which successful conservation creates a financial penalty for the utility.

5.3 What changes for utilities

Utilities would face a different risk profile, not an absence of financial protection. Cash receipts would be more volume-sensitive before regulatory adjustments, forecasting and customer data

would become more important, and revenue could be concentrated among higher volume users. In return, the utility's commercial incentives would align more closely with water efficiency, and customers would see a clearer relationship between use and bill.

A well-designed framework should assess financeability as well as accounting cost recovery: timing of cash flow, borrowing capacity, interest cover, capital-program delivery and resilience to shocks. True-ups that arrive too late can leave a utility notionally whole but cash-constrained. Reserves, adjustment frequency and government funding must therefore be designed with the utility's operating and financing cycle in mind.

6. Equity, efficiency and implementation risks

The proposal should not be adopted on moral intuition alone. Increasing block tariffs can produce unfair or inefficient outcomes when tier thresholds ignore household diversity, marginal prices depart from scarcity costs, or high use is assumed to indicate high income. Australian economic literature has challenged the fairness and efficiency of conventional increasing block tariffs under scarcity and cost-recovery constraints.[6] Those critiques strengthen the case for careful design and testing; they do not justify treating the existing fixed charge as inevitable.

Risk	Why it matters	Design response
Revenue concentration	More revenue may depend on a smaller group of higher-volume users.	Stress-test elasticity; use symmetric true-ups and a revenue-stability reserve.
Household-size bias	A household allowance can minimize larger households.	Set R per person or use an occupancy-adjusted default with simple review rights.
High use is not always discretionary	Medical, disability, climate, leaks and inefficient rentals can raise necessary use.	Provide automatic or accessible adjustments, leak relief and tenant protections.
Weak signal within R	A zero marginal price can reduce the incentive to conserve essential-band water.	Keep R modest; use education, efficiency programs and drought measures; price all use above R.
Complex administration	Occupancy and shared-meter data can be costly and intrusive.	Pilot simple default rules, minimize data collection and include privacy and appeals safeguards.

6.1 Universal baseline, targeted supplements

A universal essential allowance expresses that essential water is a right, not a benefit contingent on income-testing. Universality also avoids non-take-up among eligible households and gives every user the same conservation opportunity. It is not sufficient on its own. Larger households, people with medical needs, residents in hot climates, tenants in water-inefficient homes and customers behind shared meters may need adjustments or additional support.

The practical design should therefore combine a modest default allowance with low-burden occupancy adjustments, medical and disability allowances, leak relief, shared-meter rules, accessible review and continuing hardship programs. Privacy should be protected by collecting the minimum data required and providing a reasonable default where occupancy cannot readily be verified.

6.2 Water scarcity and marginal signals

A zero price within R weakens the marginal signal for that band. The justification is that a small quantity for essential personal and domestic use should be protected even when the short-run marginal cost is positive. R should therefore be limited to essential use. Above R, the tariff should incorporate long-run supply cost and, where appropriate, scarcity signals. During acute drought, restrictions, public communication and drought pricing above the essential band may still be needed.

6.3 Water, wastewater and the combined bill

The current NWI urban tariff principles apply to water charges, not wastewater or stormwater charges.[3] This submission likewise does not assume that wastewater costs can be recovered by metered potable-water volume alone. Wastewater has substantial fixed network and treatment costs, and the relationship between incoming water and sewage load is imperfect.

However, a household experiences one combined affordability problem. A reform that removes the fixed water charge but leaves a large unavoidable wastewater charge may deliver only limited agency. Governments and regulators should therefore publish separate cost and incidence analyses for each service and assess the combined bill. Any public subsidy should be identified rather than concealed within cross-service charges.

7. Relationship to the National Water Reform 2026 inquiry

The proposal responds directly to the inquiry's pricing and regulatory terms. It accepts the Commission's concern that general price suppression can undermine resilience. It also takes seriously the Commission's statement that governments should define social-equity objectives upfront so regulators and utilities can implement them transparently.[2]

Inquiry issue	How this proposal responds
Affordability and social equity	Makes a modest quantity for personal and domestic needs universally affordable, while retaining targeted support for exceptional needs.
Efficient resource allocation	Preserves a strong marginal signal above the essential allowance and strengthens the signal for high and discretionary use.
Long-term financial sustainability	Keeps the efficient revenue requirement intact and manages demand risk through regulatory and financial mechanisms.

Inquiry issue	How this proposal responds
Distributional objectives	Makes who pays more and who pays less explicit; requires published incidence analysis before adoption.
National consistency and diversity	Uses common design and evaluation principles while allowing local values for R, tariff steepness and revenue-risk controls.

The proposal both fits within and challenges the inherited pricing framework. It is consistent with consumption-based charging, explicit equity objectives, transparency, conservation signals and full efficient cost recovery. The NWI Pricing Principles expressly state that they do not limit governments' capacity to address equity issues.[3] However, removing the fixed water charge departs from the current presumption in favour of a two-part tariff. That is precisely why the refresh of national water policy and pricing principles is the appropriate forum for evidence-based trials.

This submission does not ask the Commission to prescribe one national value for R or one curve. National consistency should attach to objectives, safeguards, modelling standards and public reporting. Jurisdictions should retain the capacity to calibrate allowances and rates for local consumption, climate, costs, metering and social conditions.

8. A practical pathway: model, co-design, pilot, evaluate

The Commission should recommend a staged program rather than immediate national adoption. A credible pathway would:

- 1. Establish the baseline.** Measure the current tariff's revenue, distributional effects, minimum bill, conservation incentive, hardship outcomes and utility financeability.
- 2. Model alternatives.** Use de-identified interval or billing data to simulate household-size-adjusted allowances, continuous curves and simple block tariffs, including price responses.
- 3. Stress-test revenue.** Run wet, dry, conservation-success, population-growth and demand-shock scenarios; test cash-flow timing as well as annual revenue.
- 4. Co-design safeguards.** Work with consumers, utilities, regulators, public-health experts, disability advocates, tenants, First Nations communities and regional providers.
- 5. Pilot in suitable areas.** Select settings with reliable metering and data, include an appropriate comparison group, and use transition protections for customers exposed to large increases.
- 6. Publish an independent evaluation.** Report affordability, consumption, bill control, equity, customer understanding, revenue variance, administrative cost and service investment outcomes.

A pilot should have a pre-announced review and exit pathway. If the model does not maintain financeability, produces unacceptable household-size effects or proves too complex, the evidence should be published and the design amended. Empathetic policy must be as attentive to unintended consequences as it is to intent.

9. Conclusion

The familiar fixed water charge is not neutral. It is a policy choice that places provider revenue certainty ahead of the user's ability to reduce a bill through conservation. Its rationale is understandable, but it should not be mistaken for the only way to fund a high-fixed-cost network.

A user-first tariff would protect a modest quantity of essential water, remove the fixed residential water supply charge and increase prices progressively above the protected allowance. Properly calibrated, it can recover the same efficient revenue across customers. Regulatory true-ups, reserves, demand modelling and transparent public contributions can give utilities financial stability without making an unavoidable household charge the foundation of the system.

The principle is simple: essential water should be protected; conservation should visibly matter; higher and discretionary use should carry greater responsibility; and the financial stability of utilities should be secured openly at the system level.

References

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